GOVERNMENT OF INDIA
CHEMICALS AND FERTILIZERS
LOK SABHA

STARRED QUESTION NO:616
ANSWERED ON:09.05.2000
POLICY REVIEW COMMITTEE
ABDUL HAMID;RAGHUNANDAN LAL BHATIA

Will the Minister of CHEMICALS AND FERTILIZERS be pleased to state:

(a) whether the high powered fertilizer policy review committee has submitted its recommendations;

(b) if so, the salient features thereof;

(c) whether the said committee has recommended adoption of Long Range Average Cost (LRAC) method instead of the existing unit specific retention prices method for determining the price of fertilizers;

(d) if so, the details of the LRAC and the advantages of adopting this methodology; and

(e) the details of options under LRAC being worked out?

Answer

MINISTER OF CHEMICALS AND FERTILIZERS

(SHRI SURESH P. PRABHU)

(a) to (e) : A statement is laid on the Table of the House.

Statement referred to in reply to the parts (a) to (e) of Lok Sabha Starred Question No. 616 to be answered on 9-5-2000.

(a) & (b) : Yes, Sir. The salient features of recommendations of High Powered Fertilizers Pricing Policy Review Committee (HPC), set up by the Government in Jan. 1997 under the Chairmanship of Prof. C.H. Hanumantha Rao are in the enclosed Annexure.

(c) & (d) : HPC has recommended that a Normative Referral Price (NRP) be determined based on Long Run Marginal Costing (LRMC) method for the existing units for the purpose of arriving at subsidy to be paid on the sale of fertilizers within the notified ceiling Farm Gate Price (FGP). Committee has further recommended that the ex.- factory NRP for urea be fixed at Rs. 6050 PMT and for DAP at Rs. 11900 PMT as on 1.1.1998, and at Rs. 6500 PMT and Rs. 12800 PMT respectively, after including dealers margin and average freight. In respect of urea units using feedstock other than natural gas, the Committee has recommended the feedstock differential cost reimbursement (FDCR) to the tune of Rs. 1750 PMT and Rs. 1300 PMT of urea as on

1.1.1998 for fertilizer units using naphtha/coal and FO/LSHS respectively for a period of five years. The HPC has cited following advantages of LRAC based methodology

(i) costs are objectively assessed a priori and not influenced by managerial or operational deficiencies of individual units;

(ii) costs are assessed at normative levels of efficiency;

(iii) the impact of state-of-art technology in relation to costs and efficiencies are given due weightage; and

(iv) ensures greater equity as between producers and consumers, by giving due consideration to current costs and ironing out the effect of the lumpy nature of investments in high capital intensive industries.

(e) : The Government is in the process of finalising a New Pricing Policy based on the recommendations of HPC.

ANNEXURE

ENCLOSURE REFERRED TO IN REPLY TO PART (a) AND (b) OF LOK SABHA STARRED QUESTION NO. 616 TO BE ANSWERED ON 9-5-2000.

1. The High Powered Fertilizer Pricing Policy Review Committee has made its recommendations on a number of issues concerning the fertilizer sector. It has dealt with important issues relating to the pricing policy, subsidy, creation of new capacities and removal of controls, etc. The following are among the important recommendations :

2. The unitwise retention price scheme be discontinued. It has suggested that normative referral price (NRP) may be determined for the existing units based on the Long Run Marginal Cost (LRMC) method for arriving at the subsidy to be paid on the sale of fertilizers within a notified ceiling farm gate price. It has recommended that fertilizer units using naphtha and fuel oil/LSHS as feedstocks should be given the Feedstock Differential Cost Reimbursement (FDCR) for a period of 5 years during which they should switch over to LNG. In so far as new units are concerned, a guaranteed price for a period of 15 years of production may be announced by the government well in advance related to LRMC principle for projects based on most efficient feedstock and operating on attainable efficient norms. Subsidy on complex fertilizers, low analysis fertilizers and SSP should be derived with reference to their nutrient contents.

3. The Committee has observed that import parity prices do not serve as a dependable guide for domestic investment decisions because of the high degree of volatility observed by them. Any policy framework recommended for the urea industry should prove stable and recognize its strategic nature in the context of food security. The Committee has accordingly called for a positive policy to attract new investment and thereby ensure that over a period of time the level of self sufficiency already reached is not eroded to unacceptable levels. Policy prescriptions for the future should take note of what is the minimum level of self sufficiency that the country should adhere to over the years in respect of this critical input for agriculture.

The Committee has also suggested that fertilizer industry should assume a more dynamic role in propagating use of improved kinds of fertilizers like super granulated urea, liquid fertilizers etc for which there is no incentive under the RPS and that it should also concentrate on developing adjacent and compact areas to increase fertilizer use through a comprehensive package of services.

4. It has also recommended setting up of joint ventures abroad near sources of abundant availability of feedstock as a matter of policy in the coming years, given gas shortages in India and growing demand for fertilizers.

5. The import of urea may be canalised for a period of five years and existing industry be protected from dumping of fertilizers

6. Allocations under the Essential Commodities Act for movement of fertilizers and equated freight scheme may be discontinued from Rabi, 1998-99. ECA allocation may be made only for notified scarcity and remote areas and in other emergent situations.